

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Michael Kubayanda, Chairman;
Ashley E. Poling, Vice Chairwoman;
Mark Acton;
Ann C. Fisher; and
Robert G. Taub

Periodic Reporting
(Proposal Five)

Docket No. RM2021-8

ORDER ON ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSAL FIVE)

(Issued November 5, 2021)

I. INTRODUCTION

On August 4, 2021, the Postal Service filed a petition pursuant to 39 C.F.R. § 3050.11, requesting that the Commission initiate a rulemaking proceeding to consider changes to analytical principles relating to the Postal Service's periodic reports.¹ Proposal Five seeks to treat international surface transportation to Canada separately from the treatment of international air transportation. Petition, Proposal Five at 1. Additionally, Proposal Five seeks to use additional Foreign Postal Settlement (FPS) data to more accurately distribute international surface transportation expenses to

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Five), August 4, 2021 (Petition). See *also* Notice of Filing of USPS-RM2021-8-NP1 and Application for Nonpublic Treatment, August 4, 2021.

Canada. *Id.* For the reasons discussed below, the Commission approves Proposal Five.

As further explained in this Order, during the course of this proceeding, the Postal Service identified opportunities to further improve the accuracy of the costing of international transportation. The Commission directs the Postal Service to perform these discrete improvements in future filings, as described below.

II. PROCEDURAL HISTORY

On August 6, 2021, the Commission issued a notice initiating this proceeding, providing for the submission of comments, and appointing a Public Representative.² Chairman's Information Request (CHIR) No. 1 was issued on September 17, 2021.³ The Postal Service responded to questions 1-4 and 6-8 of CHIR No. 1 on September 24, 2021,⁴ and it responded to question 5 of CHIR No. 1 on October 6, 2021.⁵ The Public Representative filed comments on September 15, 2021.⁶ No other party filed comments. CHIR No. 2 was issued on October 7, 2021.⁷ The Postal Service filed its response to CHIR No. 2 on October 14, 2021.⁸

² Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Five), August 6, 2021 (Order No. 5951).

³ Chairman's Information Request No. 1 and Notice of Filing Under Seal, September 17, 2021 (CHIR No. 1).

⁴ Responses of the United States Postal Service to Questions 1-4, 6-8 of Chairman's Information Request No. 1, September 24, 2021 (September 24 Response to CHIR No. 1). See *also* Notice of Filing of USPS-RM2021-8-NP2 and Application for Nonpublic Treatment, September 24, 2021.

⁵ Response of the United States Postal Service to Question 5 of Chairman's Information Request No. 1, October 6, 2021 (October 6 Response to CHIR No. 1). Accompanying the October 6 Response to CHIR No. 1, the Postal Service filed a Motion of the United States Postal Service for Late Acceptance of the Response to Question 5 of Chairman's Information Request No. 1, October 6, 2021. The motion is granted.

⁶ Public Representative Comments, September 15, 2021 (PR Comments).

⁷ Chairman's Information Request No. 2, October 7, 2021 (CHIR No. 2).

⁸ Responses of the United States Postal Service to Questions 1-4 of Chairman's Information Request No. 2, October 14, 2021 (Response to CHIR No. 2).

III. BACKGROUND

International transportation costs arise from expenses for procurement of air and surface services for carrying outbound international mail from U.S. dispatch terminals to foreign points of entry.⁹ International transportation expenses are reported in General Ledger (GL) accounts 53201 (INTERNATIONAL AIR TRANSPORTATION–CIVILIAN), 53212 (INTERNATIONAL TRANSPORTATION–SURFACE AIRLIFT), and 53281 (INTERNATIONAL SURFACE TRANSPORTATION).¹⁰

International Accounting reports international air transportation expenses and weights by destination country, and separately for “airmail” and International Surface Air Lift (ISAL) mail categories.¹¹ From international air transportation expense and weight data, the Postal Service develops country- and mail category-specific international air transportation costs per kilogram. Petition, Proposal Five at 2.

International air transportation costs are calculated in the ICRA model by multiplying the above referenced unit international air transportation costs by gross weights for outbound ICRA products.¹² The Postal Service adjusts international

⁹ Library Reference USPS-RM2021-8/NP1, August 4, 2021, “NP5 Part2 Chapter 4 (Revised 8.4.21).docx,” at 1.

¹⁰ Petition, Proposal Five at 1. In addition, a small amount of international transportation expenses is included in GL account 53265 (TRANS OF MAIL/EQUIP–TRNST CHG AIR-ONW CONVEY). See Library Reference USPS-RM2021-8/NP1, Excel file “CS14-NP-FY20.xlsx,” tab “WS14.1,” cell H139. The Postal Service reconciles relevant international transportation costs calculated in the International Cost and Revenue Analysis (ICRA) with combined expenses from GL accounts 53265 and 53201. See Library Reference USPS-RM2021-8/NP1, Excel file “Outbound Calcs.xlsx” (RM2021-8 Outbound Calcs Excel file), tab “trnadj,” cell H117. For the remainder of the discussion, the Commission’s reference to account 53201 will include expenses from both GL accounts 53201 and 53265.

¹¹ International air transportation expenses and weights are reported for 4 airmail categories (airmail letter post letters/cards/flats/packets (airmail LC/AO), airmail parcel post (airmail PP), Express Mail Service (EMS), and airmail M-Bags) and for 2 ISAL categories (ISAL letters/flats/packets (ISAL LC/AO), and ISAL M-Bags). *Id.* at 2-3. See also Library Reference USPS-RM2021-8/NP1, Excel file “Processed Air Transportation Data 2020.xlsx” for international air expense and weight data for airmail and ISAL mail categories.

¹² *Id.* at 2-3. See Docket No. ACR2020, Library Reference USPS-FY20-NP2, February 22, 2021, Excel file “Outbound Calcs.xlsx” (ACR2020 Outbound Calcs Excel file). Country-specific unit international air transportation costs for airmail and ISAL categories are first aggregated by System for International Revenue and Volume, Outbound (SIRVO) groups, then combined with gross weights for outbound ICRA products from SIRVO.

transportation costs for Canada to reflect the fact that certain volumes are transported to Canada by highway.¹³ To estimate international highway transportation costs for Canada under the current methodology, the Postal Service estimates the proportions of outbound weights to Canada that use highway transportation, and multiplies these by estimates of cost per kilogram for highway contracts.¹⁴

Finally, the Postal Service adjusts international air and highway transportation costs calculated in the ICRA to reconcile them with respective GL accounts totals. Under the current methodology, calculated international air and highway transportation costs for airmail categories are reconciled with GL accounts 53201 and 53281 totals; international air and highway transportation costs for ISAL mail categories are reconciled with expenses from GL account 53212.¹⁵

IV. PROPOSAL FIVE

Proposal Five seeks to distribute expenses from GL account 53281 to outbound international weights transported to Canada by highway, and to continue to treat expenses reported in accounts 53201 and 53212 as expenses on international air transportation. Petition, Proposal Five at 1-4. Proposal Five also seeks to develop a

¹³ Petition, Proposal Five at 3. For the remainder of the discussion, the Commission will refer to costs incurred by the Postal Service for transporting certain mail to Canada by highway as “international highway transportation costs.”

¹⁴ *Id.* at 2; see ACR2020 Outbound Calcs Excel file. The Postal Service develops mail category-specific diversion ratios to estimate the weights for ICRA products that are transported to Canada by highway. The Postal Service also relies on mail category-specific density estimates, which it combines with an estimate of cost per cubic foot for international highway contracts for Canada, to develop estimates for international highway transportation cost per kilogram. The Postal Service lists “Operations,” “Special study,” and Transportation Cost System (TRACS) data to develop diversion ratios, mail density, and cost per cubic foot estimates. See *id.*

¹⁵ Petition, Proposal Five at 1-2. See ACR2020 Outbound Calcs Excel file. Such calculated international transportation costs are unitized, and provided to the International Costing Module to calculate international transportation costs for Negotiated Service Agreement (NSA) volumes. See *id.*; see also Docket No. ACR2020, Library Reference USPS-FY20-NP2, February 22, 2021, Excel file “Reports (Unified).xslm” (ACR2020 Reports Excel file).

distribution key from FPS data, which would enable distribution of international highway transportation expenses for Canada more accurately. *Id.* at 4-5.

The Postal Service claims that Proposal Five provides three improvements to the accuracy of international transportation costing. First, by distributing expenses reported in GL account 53281 using a distribution key, Proposal Five would eliminate the need to estimate international highway transportation costs for Canada.¹⁶ Second, by distributing expenses from GL account 53281 to observed surface weights to Canada, Proposal Five allows a more accurate calculation of international air transportation costs for both Canada and the rest of the world. *Id.* at 4. Finally, by treating international highway transportation expenses from GL account 53281 separately, only the calculated international air transportation costs would need to be reconciled with GL accounts 53201¹⁷ and 53212¹⁸ totals. *Id.* at 4, 6.

International highway transportation costs for Canada. The Postal Service explains that its effort to estimate costs during the height of the COVID-19 pandemic in Fiscal Year (FY) 2020 prompted it to undertake a “more thorough review of international transportation costs.” *Id.* at 2. The Postal Service’s review revealed that the purpose of GL account 53281 “is solely for expenses incurred for transporting mail to Canada by highway.” *Id.*

Distributing all of the costs in GL account 53281 to mail transported to Canada by surface results in an increase in international highway transportation cost per kilogram, compared to the current methodology. More specifically, international highway transportation cost per kilogram under Proposal Five is between 10 and 27 times higher than unit costs applied to outbound surface weights to Canada in the FY 2020 Annual

¹⁶ The Postal Service currently relies on estimates of surface weights to Canada and estimates of international highway transportation costs per kilogram, to develop international highway transportation costs for Canada. *Id.* at 3-4. *See also supra*, Section III.

¹⁷ For airmail mail categories.

¹⁸ For ISAL mail categories.

Compliance Review (ACR) docket, which were calculated using the current methodology.¹⁹

Distribution of international highway transportation costs for Canada. Proposal Five seeks to use FPS data for total outbound weights between International Service Centers (ISCs) and destinations in Canada.²⁰ Proposal Five further seeks to apply International Logistics rules of “what was flown and what was trucked to Canada” to these weights in order to develop a distribution key.²¹ The distribution key provides ICRA product-level detail on proportions of outbound weights actually transported to Canada by highway and by air, thus eliminating the need to develop diversion ratios.²²

Impact of proposed changes on international transportation costs. The Postal Service states that Proposal Five would have a “modest impact” and provides that its implementation would shift roughly \$158,000 in attributable costs from Market Dominant to Competitive products. Petition, Proposal Five at 5. In Response to CHIR No. 2, the Postal Service further clarifies that “[p]roper interpretation of the term ‘modest impact’ depends on the context.” Response to CHIR No. 2, question 1. With this clarification, the Postal Service provides alternative contexts in which the impact of Proposal Five could be viewed – one which compares international transportation cost to Canada with

¹⁹ As noted above, the Postal Service currently uses separate estimates of international highway transportation costs per kilogram, which are developed from an estimate of cost per cubic foot for international highway contracts for Canada, and mail category-specific estimates of mail density. See ACR2020 Outbound Calcs Excel file. See also RM2021-8 Outbound Calcs Excel file.

²⁰ Petition, Proposal Five at 4. The Postal Service explains that FPS includes census-based data on outbound NSA and non-NSA weights to Canada, and further clarifies that these data “reflect the most current dispatch weights” for outbound mail to Canada. September 24 Response to CHIR No. 1, question 1.f.

²¹ Petition, Proposal Five at 4. Under the Proposal Five methodology, the Postal Service applies International Logistics rules to outbound weights for each ISC-Canada facility pair. *Id.* International Logistics rules are specific to ISC-Canada facility pairs, and to mail classes, and enable an estimation of weights that actually traveled to Canada by highway and by air for all ISC-Canada facility pairs. *Id.* The distribution key is developed by aggregating ISC-Canada facility pair air and surface weights by ICRA product. *Id.*

²² Response to CHIR No. 2, question 4.a. See Library Reference USPS-RM2021-8/NP1, Excel file “FY20 CA Sur Trn Distr Key.xlsx.”

total costs to Canada, and one which describes the increases in costs for NSA and non-NSA mail to Canada.²³

The Commission notes that international transportation costs comprise 2 and 3 percent of total attributable costs for non-NSA and NSA mail to Canada, respectively, under the current methodology. International transportation costs comprise 5 and 6 percent of total attributable costs for non-NSA and NSA mail to Canada, respectively, under Proposal Five.²⁴ In addition, while total attributable costs for non-NSA and NSA mail would increase about 3 percent under the proposed methodology, international transportation costs would increase about 163 percent for non-NSA, and about 113 percent for NSA mail to Canada. Response to CHIR No. 2, questions 1.a., 1.b.

The Commission notes that the impact of Proposal Five varies among ICRA products. ICRA products for which International Logistics rules suggest higher proportions of weights travelling to Canada by air than estimated under the current methodology would have the largest increases in international transportation costs.²⁵ Even ICRA products for which lower proportions of weights travelling to Canada by air are calculated under Proposal Five would have increases in international transportation costs due to substantially higher international highway cost per kilogram applicable to highway weights to Canada.²⁶

The varying impacts of Proposal Five on product costs result in varying impacts on costs for international products consisting of NSAs due to differences in mail mix.

²³ *Id.* More specifically, the Postal Service describes that “[d]omestic processing and settlement expenses comprise over 90 percent of total costs to Canada.” *Id.* The Postal Service also describes the cost increases for both non-NSA and NSA mail resulting from the instant proposal as about 3 percent. *Id.*

²⁴ See Library Reference USPS-RM2021-8/NP1, Excel file “Reports (Unified).xls.” See also ACR2020 Reports Excel file.

²⁵ For such products, increases in international transportation costs would stem from more weight travelling via more costly air transportation, and from higher international highway transportation cost per kilogram applied to surface weights.

²⁶ For products, for which proportions of weights that travel to Canada by highway are similar under Proposal Five to those estimated under the current methodology, the increases in total international transportation costs result from increases in international highway costs per kilogram.

More specifically, financial workpapers filed by the Postal Service suggest that the Global Reseller Expedited Package Contracts 2 product would be disproportionately affected by the Proposal Five methodology.²⁷ The Postal Service confirms that the 113 percent increase in international transportation costs for NSA mail to Canada, noted above, “will likely impact the cost coverage of currently (*i.e.*, during FY 2021) active outbound international NSAs for which large portions of qualifying mail volumes destinate in Canada.” Response to CHIR No. 2, question 1.d.

Cost reporting accuracy. As noted above, the Postal Service states that its thorough review of international transportation costs for FY 2020 revealed that GL account 53281 includes only expenses incurred for transporting mail to Canada by highway.²⁸ Prior to this finding, the Postal Service treated costs from GL account 52381 as expenses on international air transportation for airmail volumes to Canada and the rest of the world.²⁹

During the course of the instant proceeding, the Postal Service clarified that its review of FY 2020 international transportation costs had also shown “incidental” ocean transportation expenses in GL account 53281. October 6 Response to CHIR No. 1. The Postal Service suggests that its statement in the Petition³⁰ is based on the finding of both surface transportation costs for Canada and ocean transportation expenses in GL account 53281, implying that the statement is justified considering the incidental nature of ocean transportation expenses in account 53281. *Id.*

In the response to CHIR No. 1, the Postal Service describes a subsequent investigation into FY 2021 international transportation costs which it states revealed “a

²⁷ See Library Reference USPS-RM2021-8/NP1, Excel file “Att2.xlsx.” See also Docket No. CP2021-140, Response of the United States Postal Service to Chairman’s Information Request No. 1, October 19, 2021, question 2.

²⁸ Petition, Proposal Five at 2. The account also includes some expenses incurred for international ocean surface transportation. October 6 Response to CHIR No. 1.

²⁹ *Id.* at 2-4. See *infra* n.11 for description of airmail mail categories.

³⁰ That “account 53281 is solely for expenses incurred for transporting mail to Canada by highway.” Petition, Proposal Five at 2.

more material amount of ocean transportation expense...showing up in account 53281.”
Id.

The Postal Service does not explain what might have led to incidental, or more material, ocean transportation expenses appearing in GL account 53281. The Postal Service states that “[a]ny ocean transportation amounts that do show up in account 53281 can and will be segregated” from the account total and “treated as Group Specific to International” for attribution purposes.³¹

The Commission notes that it relies on the accuracy of cost reporting when it evaluates compliance of products with 39 U.S.C. § 3633 during the ACR process, and when it evaluates cost coverage projections for NSAs,³² during pre-implementation reviews.

The increase in unit international transportation cost for Canada-destined volumes, which results from Proposal Five, suggests that NSA models underestimated these costs prior to the finding that GL account 53281 is for highway transportation expenses to Canada. Consequently, prices offered by the Postal Service to its customers could not adequately reflect the actual costs the Postal Service would incur for the delivery of mail volumes to Canada entered under outbound international NSAs. In conclusion, Proposal Five highlights the importance of accuracy in Postal Service cost reporting.

³¹ *Id.* The Commission adds that in response to a CHIR question about which GL accounts include ocean transportation expenses, issued in the FY 2020 ACR docket, the Postal Service suggested that it was unaware of ocean transportation expenses reported in GL account 52331 prior to the Commission’s question. See Docket No. ACR2020, Responses of the United States Postal Service to Questions 1, 4, 5, 7, and 8 of Chairman’s Information Request No. 4, January 29, 2021, question 7.b. In the instant proceeding, the Postal Service states that GL account 52331 is where ocean transportation costs “are primarily being recorded.” October 6 Response to CHIR No. 1.

³² Which are based on unit cost estimates from the ACR process.

V. COMMENTS

The Commission received comments from the Public Representative. No other interested party filed comments. The Public Representative states that “the proposed change improves the accuracy of cost distribution of both International air transportation expenses and International surface transportation to Canada.” PR Comments at 4. She states that the Postal Service’s proposal “to isolate International surface transportation to Canada (Account 53281) and use FPS data to distribute those costs will improve the accuracy of cost distribution in the ICRA.” *Id.* The Public Representative further comments that the changes in “product level cost and contribution data resulting from this proposal...do not appear to have a significant impact on International Competitive product contributions.” *Id.* (footnote omitted). She states that the “shift of approximately \$158 thousand in attributable costs from Market Dominant to Competitive,” resulting from the proposed changes, would lead to “a zero net change in total costs.” *Id.* The Public Representative agrees with the Postal Service’s statement that “all NSA’s that were compensatory in FY 2020 would have remained so under this proposal” and concludes that “the difference in total volume variable and products specific costs for International NSA’s...reconciles with the change in International NSA’s [costs]” as calculated by the Postal Service in financial workpapers included in Library Reference USPS-RM2021-8/NP1. *Id.*

VI. COMMISSION ANALYSIS

Based upon a review of the Petition, Proposal Five, the workpapers filed in support of Proposal Five, the Responses to CHIR Nos.1 and 2, and the Public Representative’s comments, the Commission approves Proposal Five. Proposal Five improves the Postal Service’s ICRA reporting by appropriately distributing expenses reported in GL account 53281 to outbound international volumes that travel to Canada by highway. By distributing expenses from GL account 53281 to surface weights to Canada, Proposal Five allows a more accurate calculation of international air transportation costs, for both Canada and the rest of the world. Proposal Five also

improves the Postal Service's ICRA reporting by using FPS data and International Logistic rules to develop a product-level distribution key. The distribution key, calculated from census-based FPS weights and International Logistics rules of "what was flown and what was trucked to Canada" enables the Postal Service to distribute international highway transportation expenses to Canada more accurately. With the more accurate costing information developed via this rulemaking, the Postal Service should meet the Commission's expectation that the Postal Service price international mail products, including outbound international NSAs, at compensatory levels.

Proposed changes to analytical principles are evaluated to ensure that they "improve the quality, accuracy, or completeness of the data or analysis of data" contained in the Postal Service's periodic reports, pursuant to 39 C.F.R. § 3050.11(a). Proposal Five improves the accuracy of the Postal Service's data by identifying GL account 53281 as including international highway transportation expenses for Canada. Proposal Five also improves the accuracy of the analysis of data because it combines FPS weights and International Logistics rules, which allow for a more accurate distribution of international transportation expenses to Canada.

The Commission approves Proposal Five, with a minor modification – the Commission directs the Postal Service to subtract expenses incurred on international ocean surface transportation recorded in GL account 53281 from the account total. This would further improve the accuracy of the ICRA and distribute only international highway transportation expenses for Canada to pertinent volumes in future ACR dockets.

Given the rationale for Proposal Five,³³ and the Postal Service's responses to CHIRs issued in the instant proceeding and in the FY 2020 ACR docket, the Commission is concerned about other potential inaccuracies in international transportation cost reporting.³⁴ Therefore, the Commission directs the Postal Service in

³³ See *infra* n.30.

³⁴ See *infra* n.31.

the next ACR docket to separately identify all GL accounts where expenses incurred on international ocean surface and international charter transportation are recorded, including expense amounts in each GL account. For international charter and ocean surface transportation costs attributed to products, the Commission directs the Postal Service to provide cost and weight data, by destination country and mail category.³⁵ For international charter and ocean surface transportation costs not attributed to products,³⁶ the Commission directs the Postal Service to explain the nature of services procured.

VII. ORDERING PARAGRAPHS

It is ordered:

1. For purposes of periodic reporting to the Commission, the changes in analytical principles proposed by the Postal Service in Proposal Five are approved with the modifications as described above.
2. The Commission directs the Postal Service in the next ACR docket to separately identify all GL accounts where expenses for international ocean surface and international charter transportation are recorded and to provide other data and explanations consistent with the body of this Order.

By the Commission.

Erica A. Barker
Secretary

³⁵ See *infra* n.11 for international air transportation reports, which show country-level data on costs and weights for four airmail and two ISAL mail categories.

³⁶ Such as costs incurred on international ocean surface transportation of empty equipment.